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March 14, 2006

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2<sup>nd</sup> Floor  
Boston, MA 02110

Re: Request for Approval of Natural Gas Asset Optimization Service Contract, D.T.E. 06-9

Dear Secretary Cottrell:

Enclosed please find a redacted response to DTE-RR-1 and a response to Information Request AG 1-20. Please note the record-request response has a confidential attachment that has been provided only to the Hearing Officer and the Attorney General pursuant to a non-disclosure agreement.

Thank you for your consideration and assistance in this matter.

Very truly yours,

  
Cheryl M. Kimball

Enclosures

cc: Andrew O. Kaplan, General Counsel  
George Yiankos, Director, Gas Division  
Andréas Thanos, Assistant Director, Gas Division  
Joseph Rogers, Assistant Attorney General

RECORD REQUESTS OF  
THE DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY  
TO KEYSpan ENERGY DELIVERY NEW ENGLAND

D.T.E. 06-9

**Redacted Attachment**

Dated: March 14, 2006

Respondent: Elizabeth D. Arangio

Record Request DTE 1-1

- Q. Please calculate what the margin-sharing revenues under the current agreement between the Company and MLCI would be if the margin-sharing agreement proposed by the Company going forward were in effect today. Please include in your calculation the share of revenues that would be retained by the Customers, the Company and MLCI respectively.
- A. The table provided as Attachment RR-DTE-1 compares (a) the actual revenue allocation between customers, MLCI and KeySpan under the traditional outsourcing agreement currently in effect with MLCI, to (b) the revenue allocation that would have occurred with the proposed co-management arrangement and associated revenue allocation in place over the same time period.

Please note that the information contained in Attachment RR-DTE-1 is confidential and subject to the Motion for Confidentiality approved by the Department on February 27, 2006. Therefore, the Company has provided a redacted version for the public records and has distributed a confidential version to the Department and the Attorney General (pursuant to a non-disclosure agreement).

Actual  
Proposed

Period	Actual Revenue Earned	Customer Guaranteed Payment (proposed)	Customer Share of Excess Revenue (proposed)	Total Ratepayer Revenue (proposed)	Total Ratepayer Revenue (actual)	MLCI Revenue (proposed)	MLCI Revenue (actual)	KeySpan Revenue (proposed)	KeySpan Revenue (actual)
Merrill (1) 11/02 - 03/03									
Merrill 04/03 - 03/04									
Merrill 04/04 - 03/05									
<b>TOTAL:</b>									

(1) Contract term only partial year (five months).

FIRST SET OF INFORMATION REQUESTS OF  
THE ATTORNEY GENERAL  
TO KEYSpan ENERGY DELIVERY NEW ENGLAND

D.T.E. 06-9

Dated: March 8, 2006

Respondent: Elizabeth D. Arangio

Information Request AG 1-20

- Q. State whether KeySpan believes that the Asset Optimization Agreement dated January 26, 2006 meets the Department's standard for approval of a gas commodity contract?
- A. Yes. The proposed Asset Optimization Agreement dated January 26, 2006 meets the Department's standard for approval of a gas commodity contract.

Under the Department's standard, the Company must demonstrate that the contract is in the public interest because it: (1) is consistent with the Company's portfolio objectives; and (2) compares favorably to the range of alternative options reasonably available to the company and its customers.

With respect to the first prong of the Department's standard, the Department found in D.T.E. 04-9 that the EKT Agreement was consistent with KeySpan's most recently approved forecast and supply plan filing, KeySpan Energy Delivery, D.T.E. 01-105 (2003), because the contract would replace an existing supply source and did not constitute an "incremental" supply source not covered by the plan (D.T.E. 04-9, at 11). In this case, the Asset Optimization Agreement would replace the existing EKT Agreement, and therefore, would replace an existing supply source rather than constituting an incremental supply source. In addition, the contracts subject to the arrangement are the same bundle of contracts reviewed and approved by the Department in D.T.E. 01-105 and KeySpan Energy Delivery, D.T.E. 03-66 (2003), as well as being those encompassed in the Company's most recent long-range resource and requirements plan, which is currently pending before the Department in KeySpan Energy Delivery, D.T.E. 05-68. Moreover, the Asset Optimization Agreement is designed with the specific intent of meeting the critical portfolio objectives of flexibility, reliability and diversity of supplies.

With respect to the second prong of the Department's standard, the Department found in D.T.E. 04-9 that the EKT Agreement represented the highest possible value for customers based on portfolio and market conditions at the time KeySpan entered the contract (D.T.E. 04-9, at 11). In addition, the Department found that customers would not pay more for their gas supplies than they would have absent the EKT Agreement because of the pricing hierarchy. Given the benefits to customers in the form of the guaranteed fee, as well as any additional revenues derived from the

sharing of excess revenues, the Department further found that customers were likely to experience an overall net benefit (D.T.E. 04-9, at 12).

In this case, the Company has demonstrated that the Asset Optimization Agreement provides the highest market value available as a co-management agreement (see, e.g., Exhibit KED-AG-1-2(supp.)(confidential)). In addition the Asset Optimization Agreement would operate in the same manner as the existing EKT Agreement in terms of the price to be charged to customers through the CGA. By application of the pricing hierarchy, customers will not pay more for their gas supplies than they would have absent the Asset Optimization Agreement. In addition, the fixed costs of the resource portfolio paid by customers will be mitigated by the guaranteed fixed payment, as well a share of the excess revenues achieved over and above the guaranteed payment (without the need to share those revenues with KeySpan as they do under the EKT Agreement). Therefore, the Asset Optimization Agreement represents the highest possible value for customers in light of current market conditions and the need to meet critical portfolio objectives (reliability, flexibility and diversity of supply).